

## Press Release

2 March 2022

### **Best performance since 2008: liquid alternatives significantly outperform hedge funds Expectation of rising interest rates drives investors away from bond strategies**

**UCITS-compliant hedge fund strategies (liquid alternatives) performed extremely well in 2021 to record their strongest result since this Study was first published in 2008. With an average return of 6.71%, they significantly outperformed unregulated hedge funds (3.65%) and positioned themselves as an alternative to the bond market's negative returns. Individual strategies correlate strongly with the global equity market and were given a tailwind from this direction. A net EUR 15.5 billion of new capital flowed into this investment segment. The US Federal Reserve's comments about tightening its monetary policy had an impact during the fourth quarter as investors withdrew around EUR 1.1 billion from absolute return bond strategies.**

The number of funds in the evaluated universe fell by 126 to 724 due to extraordinary effects, which initially caused volumes in this segment to decline. Nevertheless, high net inflows and exceptionally strong performance ultimately resulted in growth of EUR 9.1 billion, with a market volume of just over EUR 258 billion at the end of the year. Net inflows continued almost constantly through the year. The only net outflows were in October and primarily affected Absolute Return Bond strategies, while investors continued to favour credit strategies. Unlike bonds, credit structures often have variable interest rates and are less sensitive to rising interest rates. Investors have generally turned their backs on market-neutral strategies with low beta such as Alternative Equity Market Neutral, as they were unable to profit from rising equity markets with these strategies.

There were significant differences in average performance between different strategies within the evaluated universe in 2021, with performance ranging from -0.90% to +10.86%. There was an even larger spread in returns between different managers. This even applied to fixed-income strategies such as Absolute Return Bond, where different managers generated returns in a range between -5.75% and +18.44%.

“The exceptionally strong average returns across the entire universe of liquid alternative strategies should not obscure the fact that manager selection remains an absolutely decisive criterion for investment success,” said **Ralf Lochmüller, Managing Partner and CEO of Lupus alpha**. “The bigger the difference in returns between the managers of a given strategy, the more essential it is to conduct a dedicated due diligence process when selecting funds,” added **Lochmüller**.

Individual liquid alternatives strategies also reveal strong correlations either with each other or with the wider equity market, including strategies such as Fixed Income Credit where you would not necessarily expect this to be the case. Investors primarily aiming to open up alternative sources of returns with liquid alternatives should include the correlation of these strategies with the equity market in their due diligence.

**Some strong correlation with the MSCI World equity index (5-year HFRX indices)**

	Absolute Return	Macro/CTA	Equity Hedge	Global Hedge Fund EUR	Equity Market Neutral	ED Merger Arbitrage	Event Driven	Fixed Income Credit	Relative Value Arbitrage	MSCI World Net TR USD
Absolute Return	1									
Macro/CTA	0.240	1								
Equity Hedge	0.616	0.495	1							
Global Hedge Fund EUR	0.497	0.222	0.889	1						
Equity Market Neutral	0.613	0.488	0.988	0.874	1					
ED Merger Arbitrage	0.490	0.083	0.273	0.267	0.284	1				
Event Driven	0.702	0.001	0.443	0.383	0.431	0.220	1			
Fixed Income Credit	0.470	0.120	0.434	0.342	0.441	0.152	0.283	1		
Relative Value Arbitrage	0.560	0.131	0.785	0.615	0.778	0.210	0.531	0.323	1	
MSCI World Net TR USD	0.654	0.212	0.693	0.557	0.705	0.234	0.436	0.786	0.545	1

**Summing up, Lochmüller said:** “The overall picture shows that funds with liquid alternative strategies have delivered on their product promise. Most products recorded a positive performance in 2021, with four out of five funds showing a positive Sharpe ratio\*. In addition, those who successfully selected the best funds in terms of manager selection were able to generate returns similar to those of equities. This means that UCITS-compliant hedge fund strategies remain a promising complementary asset class for investors with appropriate due diligence expertise.”

The [downloadable](#) white paper contains further detailed information, including a breakdown of the performance of individual strategies.

\* The Sharpe ratio gives the excess return of an investment over the secure capital investment, adjusted for the risk assumed (i.e. volatility of returns).

# Lupus alpha

## About the Study

Since 2008, Lupus alpha has been evaluating the universe of absolute return and liquid alternatives funds on the basis of data from Refinitiv. The Study covers funds with an active management approach that are authorised for distribution in Germany and are also UCITS-compliant. The Study focuses on market size, development and composition, performance in the investment segment and individual strategies, as well as key risk figures. It evaluates the three levels of aggregation – the overall universe, strategies within the universe, and funds within the strategies – and distinguishes between 14 strategies. For example, the long-short equity strategy includes 100 funds.

## About Lupus alpha

As an independent, owner-operated asset management company, Lupus alpha has been synonymous with innovative, specialised investment solutions for over 20 years. As one of Germany's European small and mid-cap pioneers, Lupus alpha is one of the leading providers of volatility strategies as well as collateralised loan obligations (CLOs). Global convertible bond strategies complete its specialised product range. The Company manages a volume of approximately EUR 15.0 billion for institutional and wholesale investors. For further information, visit [www.lupusalpha.de](http://www.lupusalpha.de).